National Energy Board | Office national de l'énergie

# Energy Facts

March 2010

## Gasoline Pricing

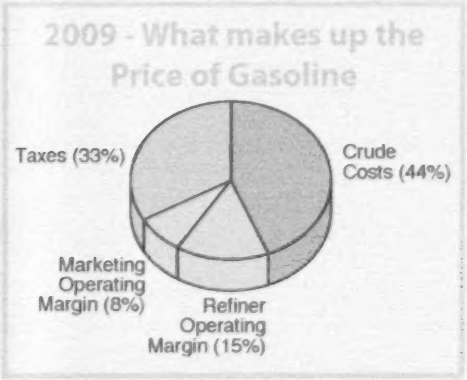
When the price of gasoline goes up people often are troubled. Particularly because Canadians rely heavily on gasoline for transportation fuel. This Energy Fact is intended to provide some clarity on how gasoline prices are set in Canada and what makes the price rise and fall.

### *Price of Crude oil*

The price of crude oil in Canada is impacted by global supply and demand, inventory levels in the United States, and geopolitical events. It is the largest single cost in delivering gasoline to motorists. The price of crude oil changes every day. A change of roughly C$1 per barrel in the price of crude oil affects the cost of gasoline by about 0.63 cents a litre. If this cost change is passed fully to consumers, the price would move by 0.66 cents per litre, with about 0.03 cents stemming from the GST (e.g. price of crude rises from $70 to $71 per barrel, - price of gasoline is 95.0 cents per litre – it would rise to 95.7 cents per litre).

### *The Refiner Operating Profit/Margin*

The refiner operating and marketing profits/margins include the costs of all operations from the refining of crude oil into gasoline to the transportation and distribution of the fuel.


2009 - What makes up the Price of Gasoline
Taxes (33%)
Crude Costs (44%)
Marketing Operating Margin (8%)
Refiner Operating Margin (15%)

### *The Marketing Profit/Margin*

The marketing profit/margin includes all marketing expenses, such as advertising and salaries/ wages for people working at gasoline stations.

### *Taxes*

Taxes are the second largest cost in the price of gasoline.

## Other Influences on Price

### *Global*

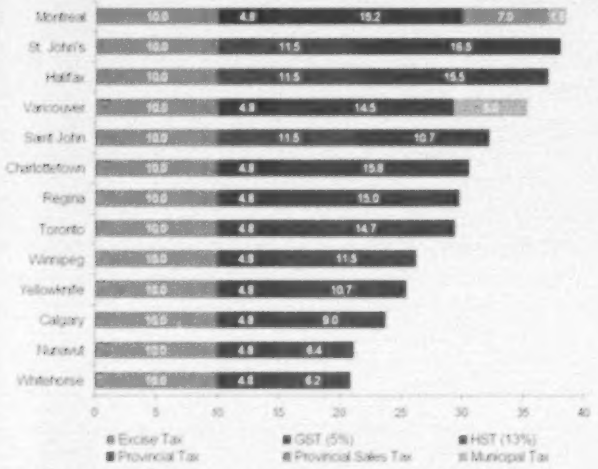
The price of gasoline in Canada is strongly tied to the United States, our closest market and the largest consumer of petroleum products in the world. Gasoline, like crude oil is a commodity and has the ability to move freely in the global marketplace. In other words, gasoline is attracted to the market where people will pay the most for it. It is relatively cheap in Canada when compared to other countries around the world. This difference in the price is largely due to taxes.

## What do we know about gasoline?

- It is made from crude oil, which is the world's most traded commodity.
- Refineries purchase crude oil and process it into gasoline, diesel and other products.
- Gasoline is distributed to service stations through pipelines and transport trucks.

Canada

Taxes on Gasoline when the Pump Price is One Dollar per litre (cents/litre)




Source: http://www.nrcan.gc.ca/eneene/sources/pripri/taxtax-eng.php

### *Regional Influences*

There are three main refining centres in Canada: Edmonton (Alberta); Sarnia (Ontario); and Montreal/Quebec City (Quebec). There is also one refinery in Newfoundland, one in New Brunswick, one in Nova Scotia, two in British Columbia and one in Saskatchewan.

There are a number of factors that influence gasoline prices on a regional level, they are discussed below.

### *Retail Competition*

The number of stations varies by province and affects the amount of gasoline sold, as well as the retail price. Stations that are busy and in a location where there are several other stations may have lower prices to attract customers.

### *Seasonal Demand*

During the spring, refiners build gasoline inventories in preparation for the summer driving season which begins the Memorial Day weekend in the U.S. In Canada, the Victoria Day long weekend in May marks the beginning of the driving season for Canadians. During the summer, gasoline prices are generally higher because of increased demand due to vacation travel. There has been a review of gasoline prices that indicates that prices do not rise before a long weekend. Prices rise in response to how much consumers want to buy and the gasoline available at gas stations[1].

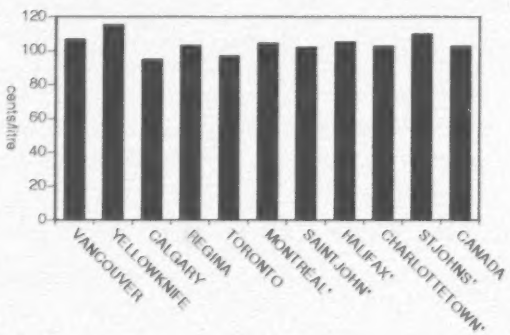
### *Taxes*

Taxes are the major reason why prices differ between provinces. The federal government charges an excise or sales tax of 10 cents per litre on gasoline and the federal GST of five per cent (except in Nova Scotia, New Brunswick and Newfoundland/Labrador where it is replaced by the Harmonized Sales Taxes (HST) of 13 per cent). The provinces also charge gasoline taxes and these vary by province. Effective 1 July 2010, British Columbia and Ontario will be moving to an HST of 12 per cent and 13 per cent, respectively. In Quebec there is an additional tax of 7.5 per cent. If you live in Vancouver, Victoria or Montreal you also get charged a gasoline tax.

### *Government Regulation*

The price of gasoline is not controlled or regulated by the federal government and is under provincial jurisdiction. There are five provinces that regulate the price, including New Brunswick, Prince Edward Island, Quebec, Newfoundland and Labrador, and Nova Scotia.

Select Canada Cities -Gasoline Prices
Five year Average 2005-2009
Cents/litre




### *The Federal Government's Role*

The Federal Government receives many complaints about gasoline prices. Since 1990, the Competition Bureau has conducted six major investigations into allegations of price collusion in the gasoline industry. While some individual retailers have been fined, it has concluded that periodic price increases are a result of market forces such as supply and demand and rising crude oil prices[2].

1. http://nrcan.gc.ca/eneene/sources/pripri/whypou-eng.php
2. http://competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/00181.html

### Did you know?

- There are 18 refineries in Canada.
- The last refinery built in Canada was in 1984.
- There have been 30 refineries shut down since 1970.
- In January 2010, Shell announced that it would be closing its Montreal refinery.
- The reduction of the GST to 5 per cent has saved Canadian consumers more than $500 million per year on gasoline.

### Average* Price of Gasoline in Canada (cents/litre)

2009 - 94.5
2008 – 114.1
2007 – 101.8
2006 – 97.7
2005 – 92.3
Source: MJ Ervin
*Volume weighted average

### Gasoline Consumption per capita in Canada (litres/person)

2009 – 1 249.7

This is a drop of one per cent since 2005.

### Cars and light trucks account for 12 per cent of Canada's greenhouse gas emissions (GHGs)